

Message Text

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ACTION ARA-10

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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TAGS: ENRG VE

SUBJ: PETROLEUM STATUS REPORT ON CONTINUING NEGOTIATIONS

REF: CARACAS 325

1. BEGIN SUMMARY. THIS HAS BEEN ESSENTIALLY A WEEK OF NO SIGNIFICANT DEVELOPMENTS IN THE CONTINUING NEGOTIATIONS BETWEEN THE US OIL COMPANIES AND THE GOV FOR OFFTAKE AND TECHNICAL SERVICE CONTRACTS. PERSONNEL FROM THE HOME OFFICES OF MOST COMPANIES ARE IN CARACAS DISCUSSING POSSIBLE OFFTAKE, LEGAL DETAILS AND TAX MATTERS. ACCORDING TO THE MINES MINISTRY HYDROCARBONS DIRECTOR, SHELL BECAME THE SECOND COMPANY TO SIGN CONTRACTS FOR OFFTAKE AND TECHNICAL SERVICES EARLY THIS WEEK, BUT THERE HAS BEEN NO PUBLIC ANNOUNCEMENT AND OTHER KNOWLEDGEABLE OIL COMPANY CONTACTS CLAIM THE FORMAL SIGNING HAS NOT TAKEN PLACE. PHILLIPS REPORTS IT IS CLOSE TO AN AGREEMENT ON THE CONTRACTS, AND GULF HOPES TO COMPLETE NEGOTIATIONS BY THE END OF JANUARY. END SUMMARY.

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2. AS OF THIS WRITING, ONLY EXXON IS KNOWN TO HAVE SIGNED THE OFFTAKE AND TECHNICAL ASSISTANCE CONTRACTS WITH PETROVEN. SHELL WAS, REPORTEDLY, READY TO SIGN ON JAN 12, BUT WE CONTINUE TO HEAR THAT THE FORMAL CEREMONY HAS NOT YET TAKEN PLACE. GULF, SUN, PHILLIPS AND OTHERS ARE IN VARIOUS STAGES OF NETOTIATIONS WITH THE GOV. ARCO HAS PROVEN TO BE A LATE STARTER, BY ITS OWN ADMISSION, AND HAS NOT COMPLETED ITS DRAFT OF A TECHNICAL SERVICE CONTRACT TO BE PROPOSED TO THE GOV. ARCO ALSO HAS NOT BEEN CALLED TN TO DISCUSS OFFTAKE. AREVALO REYES MINES MINISTRY HYDROCARBONS DIRECTOR, TOLD US ON JAN 15 THAT THE MINISTRY PLANS TO COMPLETE ALL NEGOTIATIONS WITH THE COMPANIES IN THE NEXT TWO WEEKS.

3. OFFTAKE ARRANGEMENTS APPEAR TO BE MAKESHIFT AT THE MOMENT FOR THE SMALLER COMPANIES. SUN IL'S NATIONALIZED COMPANY, PALMAVEN, TELLS US THAT IT HAS NO SALES ARRANGED AS YET, BUT IS CONTINUING TO PRODUCE AT A REDUCED LEVEL OF ABOUT 45,000 B/D (THE COMPANY HAS 150,000 B/D PRODUCTION CAPACITY) AND IS STORING THE OIL. PHILLIOS TELLS US THAT IT WILL LIFT A SHIPMENT OF HEAVY CRUDE NEXT WEEK, WITH THE PRICE SUBJECT TO FUTURE AGREEMENT, IF NOTHING IS DECIDED IN THE INTERIM. PHILLIPS REPRESENTATIVE, ORVIL HORTON, STATED THAT THE GOV HAS NOT, AND WILL NOT, REDUCE THE PRICE. BERNARDO DIAZ, THE PRESIDENT OF GULF'S NATIONALIZED COMPANY, MENEVEN, IS HOPEFUL THAT HIS COMPANY WILL CONCLUDE SALES CONTRACTS WITH GULF BY THE END OF JAN. OTHERWISE, HE WONDERS WHAT PROVISION WILL BE MADE FOR PAYING THE SALARIES OF THE GULF PERSONNEL BEING LOANED TO HIS COMPANY. AREVALO REYES, IN REPLY TO A QUESTION ABOUT POSSIBLE REFINERY CLOSURES, SAID THAT THESE WILL INCLUDE EL CHAURE, THE FORMER ARCO INSTALLATION AT PUERTO LA CRUZ; POSSIBLY MORON, THE CVP OPRATION; AND THE FORMER CHEVRON BAJO GRANDE PLANT NEAR MARACAIBO.

4. ARCO IS THE ONLY COMPANY THAT HAS COME TO THE EMBASSY SINCE NATIONALIZATION TO DISCUSS ITS PROBLEMS, BERTRAM BALCH, A COMPANY LAWYER FROM THE US OFFICE, HAS BEEN IN CARACAS FOR SEVERAL WEEKS, AND HAS BRIEFED THE AMBASSADOR SEVERAL TIMES ON ASPECTS OF THE COMPANY'S CONFIDENTIAL

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PROBLEMS. BALCH TOLD US ON JAN 14 THAT ARCO PLANS TO ATTEMPT TO WRITE OFF ALL CAPITALIZED AND UNAMORTIZED COSTS WHEN IT FILES CURRENT FISCAL YEAR TAX RETURNS. THESE COSTS INCLUDE THE BONUSES PAID FOR CONCESSIONS, A NOMINAL DRAINAGE DEDUCTION TAKEN FROM THE COMPENSATION PAID FOR ITS PARTICIPATION IN A SUN OIL CONCESSIONS, AND UNAMORTIZED EXPLORATION EXPENSES. BALCH STATED THAT TWO UNNAMED OIL COMPANIES, WHOSE FISCAL PERIODS CO-

INCIDENT WITH THE CALENDAR YEAR HAVE ALREADY ATTEMPTED THIS PROCEDURE, AND OTHER COMPANIES ARE ALSO PLANNING THE SAME STRATEGY WHEN THEIR FISCAL PERIODS END AT THE END OF THE FIRST QUARTER.

5. THE ACTIONS OF THE TWO COMPANIES IN DEDUCTING UN-COMPENSATED COSTS IN DEC, BALCH BELIEVES, MOTIVATED THE GOV TO ISSUE A DECREE AT YEAR'S END DESIGNED TO PROHIBIT SUCH TAX DEDUCTIONS. IN SPITE OF THE DECREE AND THE THREAT OF A FINE BY THE FINANCE MINISTRY, BALCH EXPECTS THAT HIS COMPANY WILL GO AHEAD WITH THE DEDUCTIONS, USING AS AN ARGUMENT THE FACT THAT THE DEC 30 DECREE WAS NOT PUBLISHED IN THE OFFICIAL GAZETTE UNTIL JAN 5, 1976, AND THUS THE PRINCIPLE OF RETROACTIVITY IS NOT APPLICABLE TO 1975. BALCH DOES NOT EXPECT TO WIN THIS POINT. THE MECHANICS TO BE USED IN THE CHALLENGE CALL FOR THE COMPANY TO CONTEST A TAX BILL (PLANILLA) IT EXPECTS TO RECEIVE IN LATE JANUARY, AND HOPE THAT THE MINISTRY OF FINANCE WILL AGREE WITH COMPANY RETURNS AND SUBMIT A REVISED AND REDUCED PLANILLA.

6. THE DECREE OF DEC 30, TO WHICH BALCH REFERRED, WAS PUBLISHED AS REGULATION TWO TO THE NATIONALIZATION LAW. THE TEXT OF THIS THREE-PARAGRAPH DECREE IS BEING FORWARDED BY AIRGRAM. SUMMARIZED, THE DECREE STATES THAT NET VALUE OF ASSETS IS NOT CHARGEABLE TO COST OF DEDUCTIBLE FROM GROSS EARNINGS IN DETERMINING NET TAXABLE EARNINGS. NEITHER ARE UNAMORTIZED EXPENDITURES OR CAPITALIZED COSTS.

7. COMMENT. GOV OFFICIALS HAVE MADE IT CLEAR REPEATEDLY IN PUBLIC STATEMENTS, AND PRIVATELY TO THE COMPANIES, THAT BONUSES PAID FOR CONCESSIONS, UNAMORTIZED AND CONFIDENTIAL

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CAPITALIZED COSTS AND EXPENDITURES, AND THE VALUE OF THE REMAINING OIL IN THE RESERVES, WOULD NOT BE COMPENSATED OR BE PERMITTED TO BE TAX DEDUCTED. THE MINES MINISTRY DID PRIVATELY TELL THE OIL COMPANIES THAT OIL DRAINAGE DEDUCTIONS COULD BE WRITTEN OFF. HOWEVER, IT IS STILL NOT CERTAIN THAT THE MINISTRY OF FINANCE WILL BE PERSUADED TO ACCEPT THIS ARRANGMENT. IT NOW APPEARS THAT AT LEAST SOME OF THE COMPANIES (WE DOUBT WHETHER EXXON OR SHELL WILL GO ALONG) ARE HOPING TO USE THE OIL DRAINAGE DEDUCTION WRITEOFF AS A PRECEDANT FOR WRITING OFF UNAMORTIZED CONCESSION COSTS. THEY SEEM TO HAVE LITTLE IF ANY CHANCE OF SUCCESS ALTHOUGH THE MANEUVER IS WORTH TRYING IN TERMS OF EXERTING OVERALL NEGOTIATING PRESSURE. END COMMENT. SHLAUDEMAN

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